

VZCZCXRO5496
RR RUEHGI RUEHRN
DE RUEHNR #4443/01 3180718
ZNR UUUUU ZZH
R 140718Z NOV 07
FM AMEMBASSY NAIROBI
TO RUEHC/SECSTATE WASHDC 3446
INFO RUEHLMC/MILLENNIUM CHALLENGE CORP
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLO/AMEMBASSY LONDON 2472
RUEHFR/AMEMBASSY PARIS 2397
RUEHXR/RWANDA COLLECTIVE

UNCLAS SECTION 01 OF 03 NAIROBI 004443

SIPDIS

SENSITIVE

SIPDIS

DEPT FOR AF/E, AF/EPS, EB/IFD/OMA
USAID FOR AFR/DP WADE WARREN, AFR/EA JEFF BORNES AND
JULIA ESCALONA
TREASURY FOR VIRGINIA BRANDON
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [EFIN](#) [KE](#)

SUBJECT: AMERICAN VENTURE CAPITAL COMES CALLING IN KENYA

NAIROBI 00004443 001.2 OF 003

Sensitive-but-unclassified. Business proprietary information - not for release outside USG channels.

11. (SBU) Summary: American venture capitalists are coming to Africa in a big way, if anecdotal evidence in Kenya is any indication. In a short span of time, the Embassy has had contact with three large venture capital funds, all heavyweights, looking at investing a combined \$650 million in established mid-sized African companies that cater to the continent's expanding middle classes. If this is indeed a trend, this kind of American investment, while unfortunately not very visible, nonetheless has the potential to help drive growth and job creation across Africa. In a separate but parallel effort to tap international capital markets, the Kenyan Government is planning to issue a sovereign Eurobond in 2008. End summary.

An Old Refrain: Not Enough U.S. Investment

12. (SBU) Government of Kenya (GOK) officials and Kenyan businessmen have for years complained to U.S. Mission staff about the dearth of American investment in Kenya, arguing that perceptions about corruption and insecurity in the country are overblown and out-of-date. In more recent times, friendly Kenya officials and businesspeople simultaneously lament the surging economic influence through trade and investment of other countries, especially China, implying that China's recent gains in Kenya represent lost ground and lost opportunities for American firms. Indeed, despite the recent formation of the American Chamber of Commerce in Kenya (ACCK), the amount of U.S. foreign direct investment in Kenya, estimated at \$89 million, is paltry given the size of Kenya's economy and its pivotal regional role.

U.S. Venture Capital Comes Calling in Kenya

13. (SBU) Anecdotal evidence, however, suggests there may be a sea change taking place in the thinking of at least one segment of the U.S. private sector - venture and equity capital. After never hearing once from U.S. venture capitalists in more than three years, Mission Econ Counselor in the past six weeks has met with three serious players looking long and hard at making significant

investments in East Africa and around the continent in the near future.

Third Security LLC

14. (SBU) First up was Third Security LLC, headquartered in Radford, Virginia. It is an independent private equity and venture capital firm that does relatively few large investments in both start-ups and establishing companies, with a focus on life sciences and information technology. The company was started in 1999 by Randal Kirk, a self-made billionaire entrepreneur now ranked among the Forbes 400 richest individuals. Econ/C met September 27 with Jeff Stark, a newly minted Managing Director in charge of the company's new Africa Fund, which is forecast to total \$100 million. Econ/C introduced Stark to several local entrepreneurs and the company may already be looking at investments in timber, broadband, and water projects in East Africa.

GEF Africa Consumer Fund

15. (SBU) Econ/C met November 1 with Judith McHale, until recently the President and CEO of Discovery Communications, the parent company of the Discovery Channel, which she grew in size from \$300 million in revenues in 1994 to \$3 billion in 2006. McHale left that company at the end of 2006 to form a new investment fund, the GEF African Consumer Fund. It is raising \$150 million, which it will use to fund established small and medium-sized enterprises across the continent. Investments will range in size from \$1 million to \$5 million each. The Fund's target sector is retail/consumer businesses - those that it sees as moving to the next level of size and sophistication by serving Africa's growing middle classes. The Fund will look to establish three offices on the continent - one each in West, East, and South Africa.

NAIROBI 00004443 002.2 OF 003

The Rohatyn Group

16. (SBU) The next day, Econ/C met with Nick Rohatyn, CEO of the Rohatyn Group (TRG), a Park Avenue venture capital firm with around \$2 billion in assets under management and four overseas offices in South America and Asia. Rohatyn is the son of legendary Wall Street banker Felix Rohatyn, who put together the financial bailout of New York City in the 1970s and was later U.S. Ambassador to Paris in the mid-1990s. The younger Rohatyn left Morgan Guaranty after its acquisition by Chase Manhattan and founded TRG in 1999. He was joined on November 2 by Ernest Stern, a former Managing Director (and frequent acting President) of the World Bank. TRG has recently launched the \$400 million Africa Catalyst Fund, which will make \$10-30 million investments in mid-sized companies in 12 focus countries in sub-Saharan Africa, including Kenya. It is in the process of opening an office in Johannesburg.

Common Analysis: Africa is the Place to Be

17. (SBU) Motivating all three companies to invest in Africa is the belief, as noted by TRG's Stern, that Africa is the last frontier for high returns on venture capital in the developing world. Asia, he said, is mature and saturated, and South America is becoming so. All three companies have done extensive political and economic analysis and found Africa desirable based on a number of recent trends, including greater democratization, improved fiscal management, reduced debt, more mature market structures, growing middle classes, and faster growth rates. Africa, in their view, is the place to be to make money.

Common Approach: Fund the Guys in the Middle

¶8. (SBU) Another common theme: All three of these new funds target medium-sized firms, i.e. those that typically are too big for micro-finance loans (which are a growth industry in Kenya at least) but too small and risky to get long-term credit from the banking system. These are the firms, the U.S. venture capitalists believe, that are good bets to grow quickly into large companies, generating wealth and jobs along the way. The funds also have an element of social conscience in that all plan to provide hands-on management expertise to the companies they invest in - a kind of profit-driven technical assistance.

Kenya Plans to Issue a Eurobond

¶9. (U) In a separate but parallel effort to raise long-term private sector funding for economic development, the Kenyan Government is planning tap to international debt markets by borrowing \$300-\$700 million through a 5-10 year Eurodollar bond offering tentatively scheduled for the first quarter of 2008. The plan is motivated by a desire not just to raise money, but also to develop an independent alternative to borrowing from the World Bank and other donors, and to establish an international benchmark for Kenyan debt. The bond issue would reportedly be only the fifth by an African country. Currently, Kenya has a B+ rating for long-term foreign currency debt from Standard and Poor's, and the government is in the process of obtaining a second rating from Fitch Ratings. Finance Minister Amos Kimunya led a team of Kenyan officials to the U.S. and the UK in October in what was dubbed a "no deal roadshow" to gauge preliminary interest in a Kenyan sovereign bond issue. Interest was reportedly strong. However, the government has yet to hire a lead bank to advise it on the transaction.

Comment

¶10. (SBU) The good news is that American investment is coming to Africa in the form of private venture capital, which has the potential to help drive the continent's economic development. By targeting established mid-size entrepreneurs, this kind of capital can complement other forms of investment, such as official

NAIROBI 00004443 003.2 OF 003

development assistance, and help catalyze wealth generation and job creation in the private sector. The downside is that this is indirect, financial investment, and thus it isn't very visible. From the perspective of commercial diplomacy, it's not quite the same as having General Electric come to Kenya and build a factory that employs hundreds of local employees and pays local taxes. That kind of green field investment, from any source (even Chinese), is still pretty rare in Kenya, which is still a tough and expensive place to do business.
Ranneberger